Subject 202

Dividends

Dividends are distributions of money, stock, or other property a corporation pays to owners of stock. You may receive dividends through a partnership, an estate, a trust, or an association that is taxed as a corporation. Most distributions are paid in cash, and are labeled as ordinary dividends, capital gain distributions, or nontaxable distributions. You may also receive distributions such as additional stock, stock rights, or other property or services. The taxable amount of a distribution depends on the type of distribution received.

Ordinary dividends are the most common type of distribution from a corporation. They are paid out of the earnings and profits of the corporation. They are ordinary income to you and are fully taxable.

If your total dividend income was more than $1,500, you must complete Form AR4, Interest and Dividend Income Schedule. If your total dividend income was $1,500 or less, you only need to show the total dividend income on the proper line on Forms AR1000, AR1000NR, or AR1000S.

Nontaxable distributions can be made in the form of a return of capital or a tax-free distribution of additional shares, stock, or stock rights. A return of capital is a refund of your investment in the stock of the company. What you paid for the stock is your basis in the stock. A return of capital reduces the basis of your stock and is not taxed until your basis in the stock is fully recovered. When the basis of your stock has been reduced to zero, you must report any return of capital as a capital gain.

Mutual funds and certain investment companies also pay capital gain distributions from their net realized long-term gains. The mutual fund statement you receive will tell you the amount to report as a capital gain distribution.

Report capital gain distributions as long-term capital gains no matter how long you owned the stock. Report as a capital gain any amount that an investment company or mutual fund credited to you as a capital gain distribution, even though you did not actually receive it. You may exclude 30% of your net long-term capital gain from income with the remaining 70% being treated as ordinary income.

You should receive a Form 1099-DIV, Statement for Recipients of Dividends and Distributions, from each payer for distributions of $10 or more. However you must report all taxable dividends even if you do not receive a statement.

The 1099-DIV statement should separate the distribution into categories. If it does not, you should contact the corporation.

Amounts paid on accounts with savings and loan associations and credit unions are often called dividends, but the amounts are interest and should be reported with your other interest income.

For more information on interest income, access Subject 201.